

ECONOMIC SURVEY OF INDIA 2021-22

KEY HIGHLIGHTS FOR UPSC CSE

PRELIMS AND MAINS 2022

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1. CHAPTER-1: STATE OF THE ECONOMY

- Do it at the end -> It is like a summary of all the remaining chapters together

2. CHAPTER-2: FISCAL DEVELOPMENTS

Some key terms you should know before starting the chapter:

- i. **Fiscal Deficit:** It is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure. It is **reflective of total borrowing requirements** of the government.
- ii. **Revenue Deficit:** It refers to excess of revenue expenditure over revenue deficit.
- iii. **Effective Revenue Deficit** is the difference between Revenue Deficit and Grants for Creation of Capital Assets
- iv. **Primary Deficit** is measured as Fiscal Deficit less interest payments

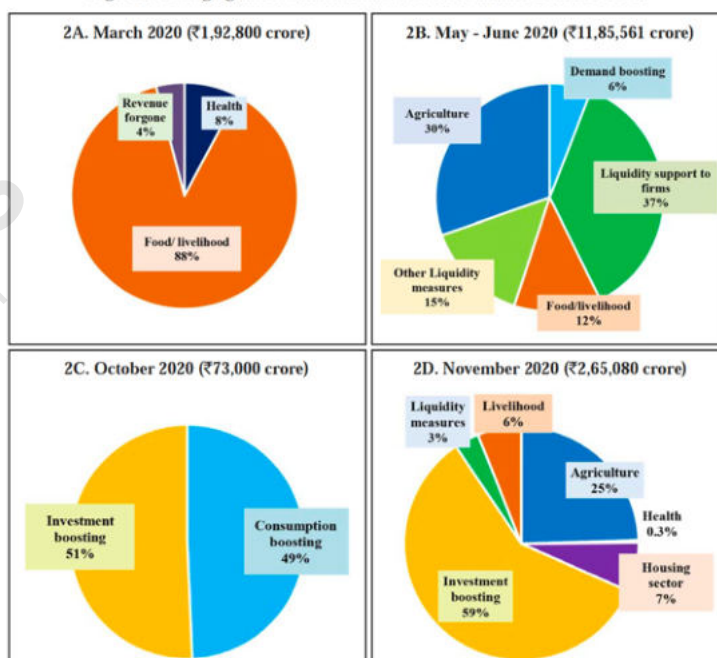
1) INTRODUCTION

- **Fiscal policy** has remained a significant tool for addressing the economic fallout of the pandemic. India has adopted a **calibrated fiscal policy approach** to the pandemic. This approach had the flexibility of adapting to an evolving situation in order to support the vulnerable sections of society/firms and enable a resilient recovery.

2) FISCAL POLICY STRATEGY IN THE AFTERMATH OF THE PANDEMIC OUTBREAK

- The agile fiscal policy response encompassed a change in mix of the stimulus measures amidst an uncertain evolution of the pandemic situation.
 - o **Initial Phase:** Building safety net for poor and vulnerable to hedge against the worst-case outcomes. It included emergency credit to small businesses, PMGKAY etc.
 - o This was **followed by** stimulus package spread throughout the year 2020-21. It included investment boosting measures like Production linked Incentives (PLI), steps to encourage investment in infrastructure sector and enhancing capital expenditure by the Central government and state government.
 - o With the restoration of economic activities, the fiscal response focused on **stimulating demand in the economy**.
- **Budget 2021-22** continued with the above approach and enhanced the budget outlay for the more productive capital expenditure.
 - o **The National Infrastructure Pipeline (NIP)** covering 6835 projects was expanded to 7400 projects in Budget 2021-22.
 - o **PLI Schemes** for 13 sectors with an outlay of 1.97 lakh crore for a period of 5 years starting from 2021-22 were announced.

Figure 2: Changing mix of stimulus announcements in 2020-21 and 2021-22

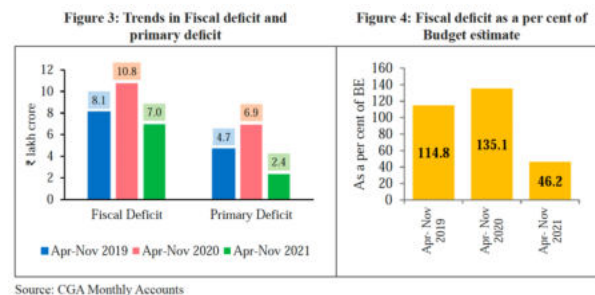


A) STIMULUS ANNOUNCEMENTS DURING 2021-22

Details of the measures	Amount (₹ Crore)
June 2021 (₹6.29 lakh crore)	
Stimulus package for COVID-19 relief	6,28,993
Loan Guarantee Scheme for COVID-19 affected sectors	1,10,000
Emergency Credit Line Guarantee Scheme (ECLGS)	1,50,000
Credit Guarantee Scheme for Micro Finance institutions	7,500
Scheme for tourist guides/stakeholders	-
Free one month tourist visa to 5 lakh tourists	100
Extension of Atma Nirbhar Bharat Rozgar Yojana	-
Additional subsidy for DAP & P&K fertilizers	14,775
Free food grains under PMGKY (May to November, 2021)	93,869
New scheme for public health	15,000
Release of climate resilient special traits varieties	-
Revival of North Eastern Regional Agricultural Marketing Corporation (NERAMAC)	77
Boost for project exports through NEIA	33,000
Boost to export insurance cover	88,000
Broadband to each village through BharatNet PPP Model	19,041
Extension of tenure of PLI scheme for large scale electronic manufacturing	
Reform based result linked power distribution scheme (Budget announcement)	97,631
July 2021 (₹23,123 crore)	
India COVID-19 Emergency Response & Health System preparedness package: Phase-II	23,123 (Centre Share ₹15,000 cr; State Share ₹8,123 cr)
December 2021 (₹53,344 crore)	
Extension of PM Garib Kalyan Ann Yojana (December 2021- March 2022)	53344.5
Source: PIB	

3) PERFORMANCE OF FISCAL INDICATOR DURING 2021-22 [FIRST HALF – APRIL TO NOV]

- Fiscal Deficit = 7%.
- Fiscal Deficit as a % of BE = 46.2%
- Primary Deficit = 2.4%
- These numbers are way better than performance in last two years.



A) REVENUE COLLECTION

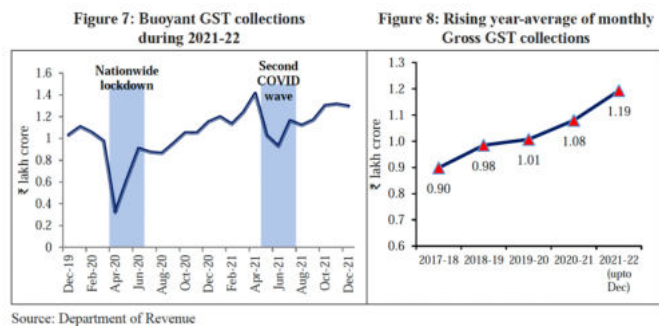
- Revenue receipt has grown at a much higher pace during April – Nov 2021 compared to the corresponding periods during the last two years. There has been considerable growth in both tax and non-tax revenue.
- Further, considerable growth has been shown by both direct and indirect taxes.
- Within **direct taxes** –
 - o **Personal income tax** has grown by 47.2% over 2020-21 and 29.2% over 2019-20.
 - o **Corporate income tax** registered a growth of 90.4% over April-Nov 2020 and 22.5% over April-Nov 2019.
 - a) **Reasons:** Increased profitability of the corporates; formalization of economy; better compliance due to tax reforms.

Table 1: Provisional Outcome for 2021-22 (April to November 2021)

	2021-22 BE	In ₹ lakh crore		Percentage of respective BE		YoY Growth (per cent)		
		2020-21	2021-22	2020-21	2021-22	FY21 over FY20	FY22 over FY21	FY22 over FY20
1 Revenue Receipts	17.88	8.13	13.59	40.2	76.0	-17.3	67.2	38.2
2 Gross tax revenue	22.17	10.26	15.42	42.3	69.5	-12.6	50.3	31.3
3 Assignment to States	6.66	3.34	4.03	42.6	60.5	-20.7	20.4	-4.5
4 Tax Revenue (net to Centre)	15.45	6.88	11.35	42.1	73.5	-8.3	64.9	51.2
5 Non Tax Revenue	2.43	1.24	2.23	32.3	91.8	-46.6	79.5	-4.1
6 Non Debt Capital Receipts	1.88	0.18	0.21	8.1	11.0	-37.5	14.1	-28.6
7 Non Debt receipts	19.76	8.31	13.79	37.0	69.8	-17.9	66.0	36.2
8 Total Expenditure	34.83	19.06	20.75	62.7	59.6	4.7	8.8	14.0
9 Revenue Expenditure	29.29	16.65	18.01	63.3	61.5	3.7	8.2	12.1
10 Capital Expenditure	5.54	2.41	2.74	58.5	49.4	12.8	13.5	28.0
11 Revenue Deficit	11.41	8.52	4.43	139.9	38.8	36.8	-48.1	-28.9
12 Fiscal Deficit	15.07	10.76	6.96	135.1	46.2	33.1	-35.3	-13.9
13 Primary Deficit	6.97	6.92	2.35	785.3	33.8	48.5	-66.0	-49.5

Source: CGA Monthly Accounts; BE: Budget Estimates

- **Indirect Tax receipts** have registered a YoY growth of 38.6% in first eight months. Custom, excise (on petrol and diesel) and GST all have improved.
 - o **GST** has emerged as a buoyant source of revenue. The average monthly GST collections for the third quarter of 2021-22 has was 1.3 lakh crore.
 - o Other than fall during COVID-19 lockdowns, the GST revenue in India has steadily grown over the last 4 years.
 - o **Factors for increase in GST collection:**
 - a) Rapid economic recovery after pandemic.
 - b) Nationwide drive against GST evaders and Fake bills
 - c) Many systematic changes introduced recently.
 - d) Various rate rationalization measures undertaken by GST council.



- **Non-Tax Revenue** (dividend, interest etc.) have also increased mostly due to 0.99 lakh crore surplus transfer from RBI to the Central government.
- **Non-Debt Capital Receipt** (recovery of loans, disinvestment receipts): Budget 2021-22 had set a target of Rs 1.75 lakh crore from disinvestment proceed this year. But as of 24th Jan 2022, government has only raised Rs 9330 crore.
 - o The recently introduced New Public Sector Enterprise Policy and Asset Monetization Strategy by Gol reaffirm its commitment towards privatization and strategic disinvestment of Public Sector Enterprises.

B) EVOLUTION OF INDIA'S DISINVESTMENT POLICY

- **First Constitutional (Amendment) Act, 1951** stated that the citizen's right to practise any profession or to carry on any occupation, trade or business conferred by article 19(1)(g) is subject to reasonable restrictions which the laws of the State may impose "in the interests of general public". The Act **allowed for nationalisation or trading by the state in any business.**
- **Thus, Nationalization became a standard policy tool by the Government.**
 - o **Air Corporations Act, 1953** nationalized nine airlines and brought them under two PSEs, Indian Airlines and Air India International.
 - o **Life Insurance Corporation Act, 1956** nationalized 154 Indian insurers, 16 non-Indian insurers, and 75 provident societies into Life Insurance Corporation of India (LIC).
 - o **General Insurance Business (Nationalization) Act, 1972** nationalized 55 Indian and 52 foreign general insurance businesses.
 - o **In 1969**, Gol nationalized 14 banks through the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. This was followed by a second round of Bank nationalization in which 6 more banks were nationalized.
 - o **Coal mines** were also nationalized during 1971-75.
- **Things changed only after the 1991 economic reforms.**
 - o The term disinvestment was first used in interim budget 1991.
 - o But, it was the Atal Bihari Vajpayee government in which disinvestment gathered steam, when a new Department of Disinvestment was created in 1999 and a separate ministry was established for the purpose in 2001.
 - o It was during this time that the **concept of strategic sales** of the state owned companies became a part of policy debate. The government stakes were sold in as many as 12 Public Sector companies during this tenure.
 - o **During the UPA government 2004-2014,** the process of disinvestment continued intermittently.
- **Since 2014,** there has again been a lot of emphasis on the policy of disinvestment. Government has divested its shares in many PSEs including HPCL, IRCTC, Cochin Shipyard, Railtel etc. In order to realize the mission of New, Self-reliant India, there was a need to redefine public sector participation in business enterprises and to encourage private sector participation in all sectors. In this background, the **New Public Sector Enterprise ("PSE") Policy** was notified in Feb 2021.

C) DETAILS OF THE NEW PUBLIC SECTOR ENTERPRISE (PSE) POLICY:

- o The policy intends to **minimize the presence of the Government in the PSEs across all sectors of the economy.**

- Under the New PSE Policy, public sector commercial enterprises have been classified as **Strategic and Non-Strategic sectors**.
- Following **four broad strategic sectors** have been delineated based on the criteria of national security, energy security, critical infrastructure, provision of financial services and availability of important minerals-
 - a) Atomic Energy, Space and Défense.
 - b) Transport and Telecommunication.
 - c) Power, Petroleum, Coal, and other minerals; and
 - d) Banking, Insurance and Financial Services.
- The policy envisages that the strategic sectors should have limited number of players restricting it to maximum four public sector enterprises of a holding nature.
- In **Dec 2021**, the Centre has released a new set of guidelines for the implementation of its PSE policy and has entrusted the **Department of Public Enterprise (DPE)** with the responsibility of identifying PSUs for privatization or closure in non-strategic sectors. According to these new guidelines, the privatization of PSUs in non-strategic sectors will still be undertaken by DIPAM, but the closure of PSUs will be DPE's responsibility.
- Since 2016, the government has given 'in-principle' approval for strategic disinvestment of 35 CPSEs and/or Subsidiaries/ Units/ Joint Ventures of CPSEs and IDBI Bank. During the present year, with progress on privatization of Air India, the government has crossed a significant milestone with **M/s Talace Pvt Ltd, a wholly-owned subsidiary of M/s Tata Sons Pvt Ltd** emerging as the successful bidder for sale of 100 per cent equity shareholding of Gol in Air India along with equity shareholding of Air India in AIXL and AISATS.

D) ASSET MONETIZATION

- The National Infrastructure Pipeline (NIP) envisaged a projected infrastructure investment of Rs 111 lakh crores during FY 2020 to FY 2025. Of this, about 15-17% is to be met through innovative and alternative initiatives such as **asset monetization, funding through a new **Development Finance Institution (DFI)** etc.** Budget 2021-22 also envisaged monetization of assets as one of the three pillars of enhanced and sustainable infrastructure financing in the country.
- As per the mandate of the Budget 2021-22, the NITI Aayog has developed a **National Monetization Pipeline (NMP)** in consultation with infrastructure line ministries. It will serve as a roadmap for the asset monetization of various brownfield infrastructure assets across roads, railways, shipping, aviation, power, telecom, oil & gas, and warehousing sectors.
- While the monetization of **core assets** is steered by NITI Aayog, the initiative for monetization of **non-core assets** has been hitherto steered by the Department of Investment and Public Asset Management (DIPAM).
- **Monetization of non-core assets** envisages unlocking of value of these thus far unutilized or underutilized assets and generate returns on the equity that the Government has invested in them. So far, **CPSEs have referred ~3400 acres of land and other non-core assets to DIPAM/MoF for monetization.**

- Monetization of non-core assets of different CPSEs i.e., MTNL, BSNL, BPCL, B&R, BEML, HMT Ltd, Instrumentation Ltd etc. is at present under various stages of the transaction.
- At present, **Government doesn't have or have very limited skill set** to take the responsibility of management and monetization of non-core assets. Therefore, in **Budget 2021-22**, government announced setting up of a **SPV**, with capacity and expertise to carry out the monetization of land and other non-core assets. In pursuance of this announcement, '**National Land Monetisation Corporation**' (NLMC) is being incorporated as a 100 per cent Govt of India owned entity with an initial authorized share capital of ` 5000 crores and subscribed share capital of ` 150 crores.

E) EXPENDITURE

- Emphasis on **capital expenditure** has been highlighted by the expenditure policy of GoI. The spending on capital expenditure has seen a growth of 13.5% over April-Nov 2020 and 28% over April-Nov 2019.

Figure 11: YoY growth in Capital Expenditure during April to November over the years

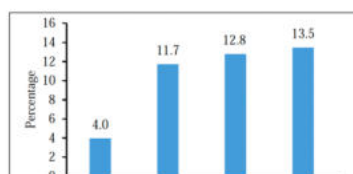


Figure 12: Emphasis sectors for Capital expenditure (April to November 2021) (In ₹ crore)

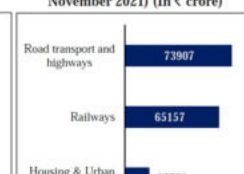
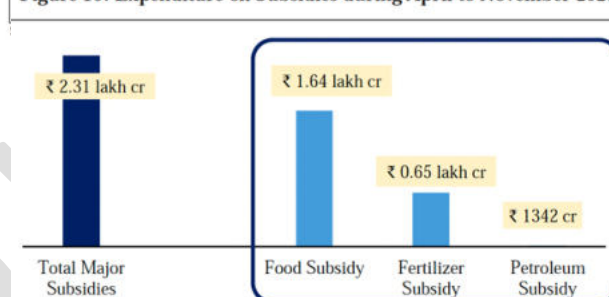


Figure 10: Expenditure on Subsidies during April to November 2021

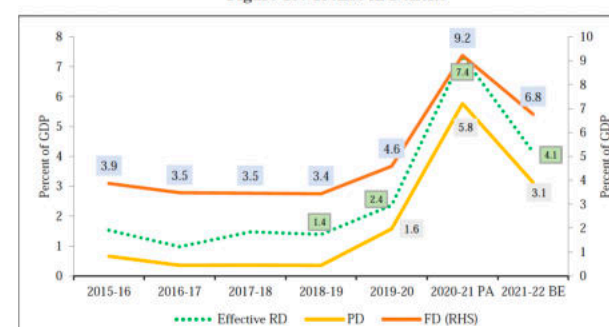


- **Revenue expenditure** has seen a growth of 8.2% during the first eight month of 2021-22.
 - **Expenditure on major subsidies stood at around 2.31 lakh crore.** Of this, the **food subsidy (1.64 lakh crore)** is the **major component** of the total subsidies. Of this the **implementation of PMGKAY itself would cost around 1.47 lakh crore in the whole year.**

4) LONG TERM TREND IN CENTRAL GOVERNMENT FINANCES:

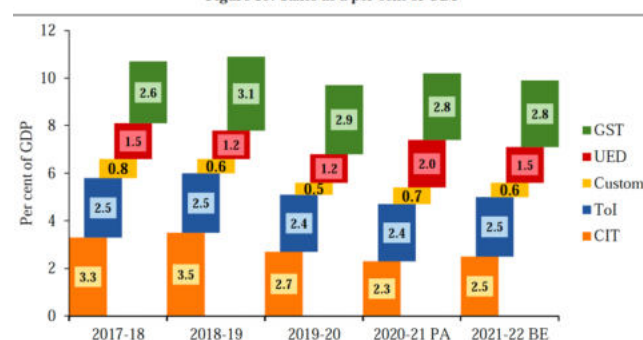
- **FY 2020-21** -> COVID-19 crisis -> shortfall in revenue and additional expenditure -> **fiscal deficit of 9.2%** of the GDP (in BE this was estimated to be 3.5%)
- **Budget 2021-22** estimated a **fiscal deficit of 6.8%** (Reasons -> reduction in expenditure and revival of tax revenues)

Figure 13: Trends in Deficits



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
FD: Fiscal Deficit; RD: Revenue Deficit; PD: Primary Deficit

Figure 15: Taxes as a per cent of GDP



A) TREND IN TAX REVENUE OF CENTRE

- Budget 2021-22 has estimated a growth of 16.7% in gross tax revenue (GTR) over the 2020-21 taxes.
- 50% direct tax and other 50% indirect taxes.

B) TREND IN NON-TAX REVENUE OF CENTRE

- Non tax revenue consist of profit/dividends, interest receipts on loans to states, and surplus from RBI; external grants and receipts for services provided by the Central Government. Budget 2021-22 envisaged generation of Rs 2.43 lakh crore of non-tax revenue, 16.8% higher than 2020-21.

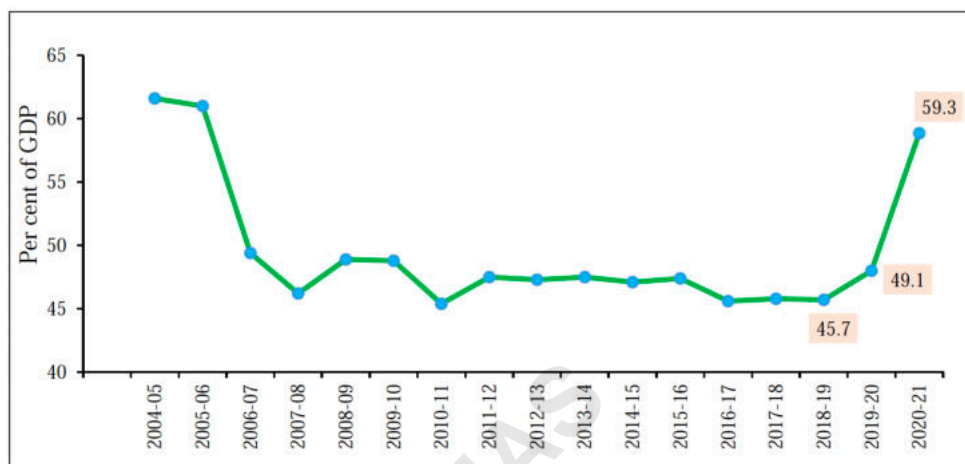
C) NON-DEBT CAPITAL RECEIPT OF CENTRE

- It includes recovery of loans and advances and disinvestment receipts. Budget 2021-22 had estimated an NDCR of Rs 1.88 lakh crores.

D) CENTRAL GOVERNMENT DEBT

- Total liabilities of the Central government, as a ratio of GDP, which were relatively stable over the past decade have **risen sharply in 2020-21**. This was because of sharp contraction in GDP and higher borrowing resorted to by Central government.
- The debt to GDP ratio, however, is expected to follow a downward trend in upcoming years.

Figure 18: Trend in Centre's Debt-GDP ratio



Source: Various issues of Status Paper on Government Debt

Note: The figures for 2020-21 are Provisional

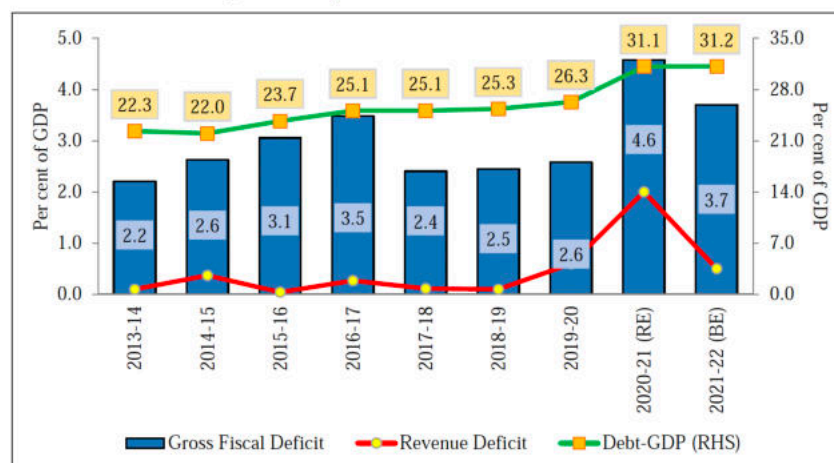
- Another **positive thing in Centre's debt structure** is that there is **low currency and interest rate risks** due to low reliance on external borrowing and issuance of majority fo securities at fixed coupon. Further, most of the **borrowings are from official sources** which are long term and concessional in nature. The roll over risk is also low due to low issuance of short term bonds with a view to elongate the maturity profile.
- **Public debt is largely owned by institutional segments** – Commercial Banks (37.77%), Insurance companies (25.3%); Provident funds (4.44%). Share of mutual funds is (2.94%) and share of RBI is 16.2%.
- **All the above factors make public debt portfolio stable and also sustainable.**
- Further, RBI has recently launched **Retail Direct Scheme**. It will be instrumental in channelizing the savings of middle class, small businessmen and senior citizens directly into risk free government securities.
 - o The scheme facilitates efficient direct access of retail individual investor to the G-Sec market, which was earlier directly being accessed only by large institutional investors. It will thus boost financial inclusion and broaden investor base.
 - o Here, retail investor will be able to open a Retail Direct Gild (RDG) account using an online portal through which she can directly invest minimum of Rs 10,000 and maximum of Rs 2 crore per security. They can place both primary and secondary bids. The secondary market

would be accessible through **Negotiated Dealing System – Order Matching (NDS OM)** – RBI's trading system, which was previously accessible only to select financial institutions.

5) STATE GOVERNMENT FINANCES

- The Gross Fiscal Deficit of States is estimated to cross the Fiscal Responsibility Legislation (FRL) threshold of 3% of GDP during 2020-21 RE and 2021-22 BE. The Revenue Deficit of the states also increased from 0.1% of GDP in 2018-19 to 2% of GDP in 2020-21 (RE).

Figure 20: Major deficit and debt indicators of States



Source: RBI State Finances: A Study of Budget; RE: Revised Estimates; BE: Budget Estimates

Note: States include 29 States and 2 Union Territories with legislatures.

- **States were allowed relaxation in borrowing limits** on account of the additional expenditure needs due to COVID-19 pandemic and decrease in revenues. The **net borrowing ceilings of the States** were enhanced to 5 per cent of GSDP of the States for the year 2020-21 and 4 per cent of GSDP of the States for 2021-22.
- Both **Gross Fiscal Deficit and Revenue Deficit for the States** are budgeted to decline in 2021-22 from the high levels they reached in 2020-21

6) MEASURES TAKEN BY THE CENTRE TO SUPPORT THE STATES DURING 2021-22

The Central Government has taken consistent steps to impart unflinching support to the States in the challenging times of the pandemic. These measures are as follows:

A) ENHANCED LIMIT OF BORROWING FOR THE STATES

FY 2020-21: Under the ANBA package, additional borrowing limit of up to 2 per cent of GSDP was allowed to the States for FY2020-21, which was equivalent to ` 4.27 lakh crore. Of the additional 2 per cent borrowing allowed to the States, the first instalment of 0.5 per cent borrowing was untied for all the states. The second part amounting to 1 per cent of GSDP was subject to implementation of following four specific State level reforms, where weightage of each reform is 0.25 per cent of GSDP

- Implementation of One Nation One Ration Card System
- Ease of doing business reform
- Urban Local body/ utility reforms; and
- d) Power Sector reforms

Another, 0.5 per cent of GSDP, which was earlier linked to the completion of at least 3 out of 4 above mentioned reforms, was made untied for States choosing Option 1 to meet the shortfall arising out of GST implementation.

FY 2021-22: The net borrowing of the States for the year 2021-22 has been fixed at 4 per cent of GSDP of the States. Out of the net borrowing ceiling (NBC) of 4 per cent of GSDP for the States for 2021-22, 0.50 per cent of GSDP was earmarked for the incremental capital expenditure to be incurred by the States during 2021-22.

For this, a target for capital expenditure was fixed for each State. To become eligible for incremental borrowing, States were required to achieve at least 15 per cent of the target set for 2021-22 by the end of first quarter of 2021-22, 45 per cent by the end of second quarter, 70 per cent by the end of third quarter and 100 per cent by 31st March 2022.

B) LOAN TO STATES IN LIEU OF GST COMPENSATION SHORTFALL

- In order to meet the shortfall in Goods and Services Tax (GST) compensation to be paid to States, the Government of India had set up a special borrowing window in the year 2020-21. An amount of ` 1,10,208 crore was borrowed through this window by the Government of India during 2020-21 on behalf of the States and UTs with legislative assembly and was passed on to the States/UTs as loan on back-to-back basis to help the States/UTs to meet the resource gap due to non-release of compensation (owing to inadequate balance in GST compensation fund).
- The aforesaid borrowing arrangement was extended for the current financial year 2021-22 to raise their endeavour.

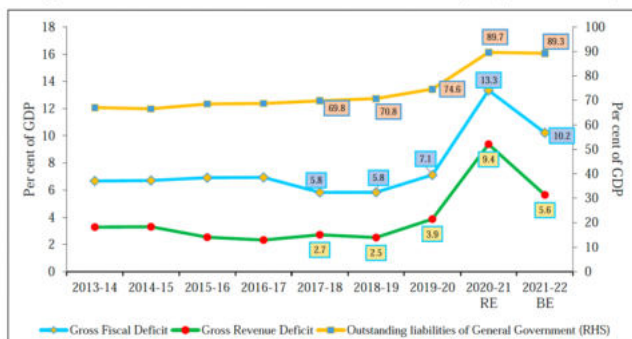
C) SCHEME FOR SPECIAL ASSISTANCE TO STATES FOR CAPITAL EXPENDITURE

- Under the scheme, special assistance of ` 11,830 was provided to the State Governments in the form of 50-year interest free loan during 2020-21. This Scheme has been extended for the year 2021-22 with an allocation of ` 10,000 crore. The Scheme for the financial year 2021-22 has three parts:
 - a) **Part-I is for the 8 north eastern States and hill states of UK and HP:** The sum allocated for this part is ` 2,600 crore. Out of this amount, ` 1,400 crore is divided equally among 7 north eastern States while ` 1,200 crore is earmarked for Assam, Uttarakhand, and Himachal Pradesh in equal shares (400 crore each).
 - b) **Part-II is for all other States not included in Part-I.** An amount of ` 7,400 crore is earmarked for this part. This amount has been allocated amongst these States in proportion to their share of Central Taxes as per the award of the 15th Finance Commission for the year 2021-22.
 - c) **Part-III is for providing incentives to States Governments for privatization/disinvestment of the State Public Sector Enterprises (SPSEs) and monetization/recycling of assets.** Under this part, States will be provided additional funds as 50 years interest free loan over and above their allocation under Part-I/Part-II of the Scheme. An amount of ` 5,000 crore is allocated for this part of the Scheme.

7) GENERAL GOVERNMENT FINANCES

- The General government liabilities as a proportion of GDP increased steeply during 2020-21 (increased borrowing, lower revenue).
- However, during 2021-22 BE, the fiscal indicators are expected to rebound with the recovery of economy and path of fiscal consolidation followed by general government.

Figure 21: Trends in General Government Debt and Deficits (as a per cent of GDP)



Source: RBI Handbook of Statistics for Indian Economy;
BE: Budget Estimates; RE: Revised Estimates

A) GOVERNMENT E-MARKET PLACE (GEM) FOR ROUTINE PROCUREMENT

- The Government in 2016 had set up a dedicated e-market known as Government e-Marketplace (GeM) for purchase of certain standard day to day use goods. This is a simple, transparent, and completely digital process for procurement. The General Financial Rules 2017 mandates all Ministries and Departments to procure Goods and Services available on GeM from GeM.
- **Advantages:**
 - Increases the number of sellers and hence more competition
 - Increased transparency
 - Reduced cost price of products.

B) NEW GUIDELINES FOR REFORMS IN PUBLIC PROCUREMENT AND PROJECT MANAGEMENT

- Apart from the purchases of common goods from GeM, the government **also procures non-routine Goods, Services and Works** like construction of highways, buildings, hiring of consultants etc. This is done using the Central Public Procurement Portal as per the **General Financial Rules (GFR) 2017**. The GFR 2017 guidelines provide **three methods for selection and evaluation of bidders** viz Least Cost System, **Quality-cum-Cost Based Selection (QCBS)** and Single Source Selection (SSS) for different categories of procurement. However, in practice, as a default, in most cases, the principle of Least Cost System, commonly known as 'L1' is the most prevalent.
- **Problems with L1 system** – It doesn't cater for innovation, quality, speed and functionality of high impact. Therefore, CVC, NITI Aayog and other organizations have advocated reforming the current system to allow other methods.
- **Alternative methods** of procurement other than L1, which **consider non-price attributes** as well, allow for choosing the contractor based on a certain amount of technical skills, previous experience etc. This puts an indirect pressure on the contractors to perform well for being eligible for future contracts, thus ensuring that contractors have '**Skin in the game**'.
- Keeping this in mind the Government **issued new guidelines for procurement and project management in October 2021**. It has expanded the ambit of selecting bidders for executing government projects and procuring goods and services. The key changes in the procurement process are as follows:
 - » **QCBS for Works and Non-consultancy Services:** Earlier, QCBS was allowed for only Consultancy Services. Now, QCBS is allowed to choose from bidders for non consultancy work as well. These bidders would be evaluated both on cost and quality parameters. The maximum weight for non-financial parameters is 30 per cent.
 - » **Fixing of Evaluation/ Qualification and Scoring Criteria under QCBS for Works and Non-consultancy Services:** To ensure quality, the procuring entities now have the freedom to amend the specifications based on their requirements and make any criteria used in evaluation as mandatory. Moreover, weightage may also be given for timely completion of past projects of similar nature by the bidder. In the scoring criteria, marks for quality compliance have also been included
 - » **Stringent deadlines for making payments:** The new guidelines stipulate timely release of payments of 75 per cent or more of bills raised within 10 working days of

the submission of the bill. The remaining bill payment is to be made after final checking within 28 working days. The procuring entity is also **liable to pay interest** if the payment of bills is delayed by over 30 working days.

- » **Single bid rejection:** The new rules stipulate public authorities to consider single bid as valid provided that the procurement was satisfactorily advertised, sufficient time was given for submission of bids, the qualitative criterion were not unduly restrictive and prices are reasonable in comparison to market values.
- » **Fixed Budget based Selection for Consultancy Services:** An additional method, fixed budget-based Selection has been added for consultancy services wherein the type of consulting service required is simple and/or repetitive and can be precisely defined. Under this method, the cost of consulting services shall be specified as affixed budget in the tender document itself.



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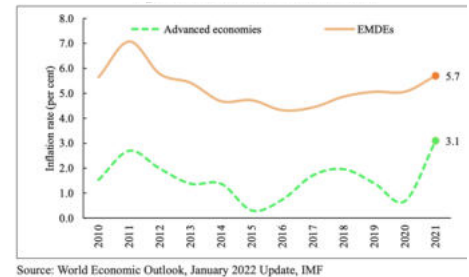


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3. CHAPTER-5: PRICE AND INFLATION

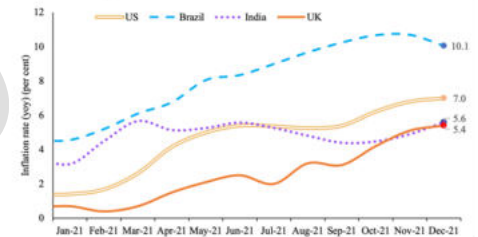
1) GLOBAL INFLATION

- **Inflation** has increased in both advanced and emerging economies in 2021.
- Key Reasons:
 - **Stimulus Spending**
 - **Pent up demand** fueling consumer spending
 - **Disruption in global supply chain** -> rising freight cost
 - **Increasing crude oil prices:** Supply cuts by the OPEC+ countries and Increased demand due to revival of economic activities.
- **Despite, very high inflation rates all over the world**, Inflation in India has remained range bound.
 - In **USA** it touched 7% in Dec 2021 (highest since 1982)
 - In **UK** it touched 5.4% in Dec 2021 (nearly 30 years high)
 - Emerging economies like Brazil (10.1%), Turkey (36.1%), and Argentina (above 50%) faced worse situations. But, **India has remained range bound**.

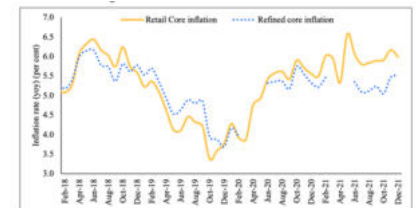


2) DOMESTIC INFLATION (INFLATIONARY SITUATION IN INDIA)

- In 2020-21, the domestic retail inflation was slightly above 6% due to supply chain disruption due to lockdowns, night curfews etc. But it moderated in 2021-22 and stood at 5.2%.
 - **Reasons:** Decline in retail inflation was led by easing food inflation (2.9%), as against 9.2% last year.
 - **Retail Core Inflation (CPI-C)** (inflation excluding 'food and beverages' and 'fuel and light') however, is showing a rising trend.
 - **Refined Core Inflation:**
 - Core Inflation still has a component of 'fuel prices' in the form of 'transport and communication' under the miscellaneous section.
 - Therefore, for better analysis the ESI has come up with 'refined' core inflation by excluding main fuel items viz. 'petrol for vehicle', 'diesel for vehicle' etc.
 - Since, June 2020, refined core inflation has been much below the conventional core inflation.
- However, **Wholesale Price Index (WPI)**, which had remained benign in 2020-21, saw a sharp uptick during 2021-22 (April-Dec).
 - **Reasons:** 1) Base Effect 2) High Commodity Prices



S No.	Subgroup	Description	Weight Rural	Weight - Urban	Weight-Combined
1.	Food and Beverage		54.18	36.29	45.86
2.	Pan, tobacco and intoxicants		3.26	1.36	2.38
3.	Clothing and footwear		7.36	5.57	6.53
4.	Housing		-	21.67	10.07
5.	Fuel and Light		7.94	5.58	6.84
6.	Miscellaneous	Household goods and services, health, transport and communication, recreation, education, personal care and effects	27.26	29.53	28.32



Source: NSO, MoSPI
Note: Item level indices for 'petrol for vehicle', 'diesel for vehicle' and 'lubricants and other fuels for vehicles' were not available for March-May 2020.

3) WHAT HAS DRIVEN INFLATION

- In 2021-22 (April-Dec), the major driver of inflation has been 'miscellaneous' and 'fuel and light' groups.
 - Inflation in Fuel and light and 'transport and communication' have been mostly driven by international crude oil, petroleum products and higher taxes.
 - **Variation of Crude Oil Prices:** In April 2020, due to COVID-19 lockdown, the price of Indian basket of Crude oil dipped to as low as \$19.9/barrel. However, since then the price has been on uptrend reaching above \$90/barrel. It has been because of the following factors:

- Increasing demand
 - Production cuts made by OPEC+ countries.
 - Rising geopolitical uncertainties in Eastern Europe and the Middle East.
- **Food Inflation has been subdued in 2022**
- Retail food inflation remained above 8% from Nov 2019 – Nov 2020, but has declined thereafter and has remained low during April-Sep 2021.
 - This indicates, adequate supply of cereals, well supported by effective PDS providing subsidized food.
 - **Retail inflation in vegetables** have remained negative (-11.3%) during April-Dec 2022. Exception has been **tomato** (see details separately in the below section)

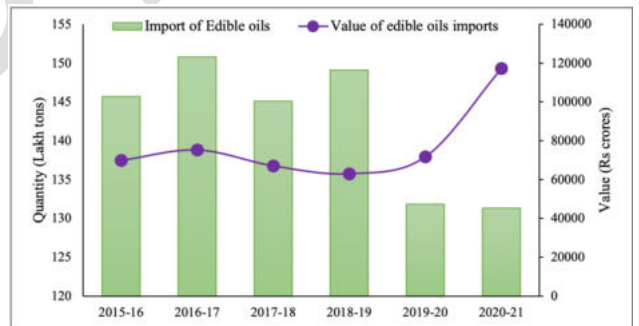
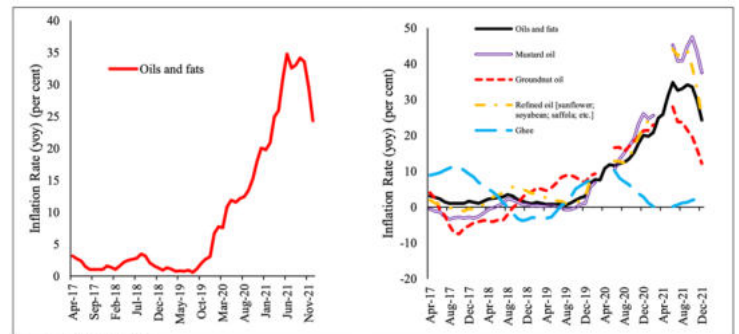
C) ANALYSIS OF PRICE SHOCKS IN TOMATO AND ONION

- **Seasonality and Irregular shocks** are two important components contributing to the variations in prices of agri commodities especially the perishable agri commodities such as fruits and vegetables.
- **Seasonality** in prices is a result of the varying pattern of production of these commodities during different months of a year. On the other hand, **shocks** often originate from uncertain weather conditions and other unpredictable events. These irregular shocks have unpredictable impact, magnitude and duration.
 - It is important to distinguish between these two factors as policy can be oriented at least towards addressing the more certain seasonal pattern of price rise.
- **Seasonality of Tomato:**
 - **70% of tomato in India** are grown in Rabi season (transplantation during Oct-Feb and harvest During Dec-June). Thus, seasonality puts upward price pressure on tomatoes between July and Nov.
 - Seasonality puts upward pressure on prices
- **Price Shocks in Tomato:**
 - Irregular shocks have been caused in tomato prices in last five years because of **weather conditions** (drought in June 2016, floods in July-Aug 2017 in Rajasthan, unseasonal rains in Karnataka and Madhya Pradesh in Nov-Dec 2017); **Diseases/Pests** (Fungus damages crops in Karnataka in May 2019).
 - In 2021, the price shocks in tomato was mostly due to Unseasonal rain in Punjab, UP, Haryana, and Himachal Pradesh which led to crop damage and delay in arrival from these states. This was followed by heavy rains in TN, Andhra, Telangana, and Karnataka which further disrupted the supply.
- **Seasonality in Onion:**
 - Like, tomatoes, 70% of Onions in India are grown in Rabi season.
- **Price Shocks in Onion:**
 - **Weather Conditions** (e.g. fall in production in 2017-18 due to cyclones in MHA which adversely affected areas like Sholapur, Nasik, Ahmednagar, and Lasalgaon.
- **Conclusion**
 - Both seasonal as well as shock components contribute in the spikes of the tomato and onion prices.
 - **Seasonality** issue can be dealt with **Policy attention** (incentivize production during lean season; Investments in processing of surplus production of tomato, and processing and storage infrastructure of onion. Cutting wastage of the production, better supply chain management will also help in meeting the demand.
 - **Steps being taken:**
 - The **Mission for Integrated Development of Horticulture (MIDH)** envisages holistic development of horticulture and provides assistance at 50 per cent of total cost of Rs. 1.75 lakh per unit for low-cost onion storage structure having a capacity of 25 tonne each.
 - **Buffer Creation:** Government procures onions directly from farmers at farm gate prices for the buffer.

- **Schemes such as Agricultural Marketing Infrastructure (AMI)** for rural godowns enables small farmers to enhance their holding capacity to sell their produce at remunerative prices and avoid distress sale.
- **“Operation Greens”** for integrated development of Tomato, Onion and Potato (TOP) value chain. It provides 50 per cent subsidy for the transportation and storage from surplus producing areas to consuming centres.
- **Kisan Rail service**, was launched on 7th August 2020 to enable speedy movement of perishables including fruits, vegetables, meat, poultry, fishery and dairy products from production or surplus regions to consumption or deficient regions

D) INFLATION DUE TO ‘OIL AND FATS’

- Oil and Fat contributed around 60 per cent of ‘food and beverages’ inflation despite having a weight of only 7.8 per cent in the group. This inflation has risen sharply since mid-2019.
- **India imports around 60% of its consumption of edible oil.**
 - Palm oils (Crude + Refined) constitutes around 60 per cent of the imports of edible oils (PIB, 2021).
 - As a result, fluctuation in imports and international prices transmit to domestic prices of edible oil.
 - The current spike in prices of edible oils is mainly due to rise in international prices and decrease in imports by India.
 - Rise in prices is highlighted by **FAO’s food price index’s Edible Oil Component**. From May 2020, it has been steep, and reached a 10-year high due to robust global import demand amidst the shortages over migrant labour impacting production in Malaysia
 - India’s import of edible oil has been lowest in last six years (however, import has increased in terms of value due to rise in prices).



E) INFLATION IN PULSES

- Inflation in pulses in 2020-21 was 16.4%, but has declined in 2021-22 to 7.1% (April-Dec).
- **Why high inflation in 2020-21?**
 - Supply side disruption due to lockdown
 - Initial hoarding by households due to lockdown
- **Why decline in inflation in 2021-22?**
 - Increase in area under cultivation (142.4 lakh hectares as of 1st Oct 2021). This was incentivized by high prices last year.

4) STEPS TAKEN BY GOVERNMENT TO AUGMENT THE SUPPLY OF ESSENTIAL COMMODITIES

A) PULSES AND ONIONS

- **Creating a buffer:** To deal with fluctuation in prices, government has procured pulses from Farmers/FPOs in 2020-21 and 2021-22. In 2021-22, the target buffer size is 23 LMT for pulses and 2.08 LMT for onions.
- **Import policy:**
 - o Tur and Urad are kept under 'free' import category till 31st March, 2022.
 - o Basic import duty and Agriculture Infrastructure and Development Cess on Masur have been brought down to zero and 10 per cent respectively.
 - o 5-year MoUs have been signed with Myanmar for annual import of 2.5 LMT of Urad and 1 LMT of Tur, and with Malawi for annual import of 0.50 LMT of Tur. The MoU with Mozambique has been extended for another 5 years for annual import of 2 LMT Tur.

B) EDIBLE OILS

- **Reduction of duty on edible oil.**
 - o The basic duty on Refined palm oil/Palmolein, Refined Soyabean oil and Refined Sunflower oil has been reduced to 17.5 per cent from 32.5 per cent with effect from 14th October 2021.
- **Steps to avoid speculation and hoarding**
 - o **Futures trading** in mustard oil on NCDEX has been **suspended** and **stock limits** have been imposed.
 - The Department of Food and Public Distribution has imposed stock limits on Edible Oils and Oilseeds for a period up to 31st March, 2022.
 - The Removal of Licensing Requirements, Stock Limits and Movement Restrictions on Specified Foodstuffs (Amendment) Order, 2021 has been issued w.e.f. 8th October, 2021.
 - It has also been directed to ensure that Edible Oils and Edible Oilseeds stock is regularly declared and updated on the portal of the Department of Food & Public Distribution
- **Promoting alternatives**
 - o Steps to improve the production of secondary edible oils, especially rice bran oil to reduce the import dependence
- **Inclusion of Soymeal as essential commodity**
 - o Government has notified an order under the Essential Commodities Act to declare 'Soya Meal' as an Essential Commodity upto 30th June 2022 by amending the schedule of Essential Commodities Act, 1955. Thus, stock limit on Soya Meal has been imposed for a period from 23rd Dec 2021 to 30th June 2022.

C) PERISHABLE ESSENTIAL COMMODITIES

- **Extension of Operation Green from 'Top' to 'Total':** For perishables, Operations Green scheme was launched in November 2018. The scheme has later been expanded from TOP (Tomato, Onion, Potato) to TOTAL (41 perishables).
 - o This has resulted in widening the impact in terms of the production clusters and beneficiaries covered. Currently, 41 perishables from 52 production clusters are being covered.
 - o Subsidy is being provided for transportation/storage.
- **Kisan Rail:** Introduced to enable speedy movement of perishables from production or surplus regions to consumption or deficient regions.

5) LPG AND KEROSENE PRICE TREND

A) LPG

- The price of petroleum products is determined by international prices. For e.g. the price of LPG in India are based on Saudi Contract Price (CP), the benchmark for international prices of LPG.
- **Saudi CP has risen approximately 258 per cent from April, 2020 to November, 2021 (236 USD to 846 USD).**

- **LPG Subsidy** is governed **under DBT for LPG scheme**, wherein the subsidy on domestic LPG is regulated based on direction of price trends in international market.
- **Since May, 2020**, there is no subsidy to the consumers on Domestic LPG (at Delhi Market).
 - o However, in far-flung areas and some other markets, there is some subsidy that varies from market to market mainly due to higher inland freight from port to bottling plant.
- **PM Ujjwala Yojana** – Launched in 2016, aimed to provide 8 crore deposit free LPG connections. This target was achieved in Sep 2019, 7 months ahead of the target. This has contributed to increase in LPG coverage from **61.9 per cent as on 01.04.2016 to 99.8 per cent as on 01.04.2021**.
 - o Its revised version, Ujjwala 2.0, was launched in Aug 2021.
 - o While it covers all existing eligible categories of beneficiaries, Ujjwala 2.0 makes **specific relaxations for migrants** who can submit a simple self- declaration as an address-proof, arranging which used to be a major hassle for migrant. Also, free first refill and stove is being provided to all Ujjwala 2.0 beneficiaries.

B) KEROSENE

- Traditionally used for lighting and cooking especially in rural areas. Government has decided to phase out use of Kerosene for cooking and lighting in view of the increasing coverage of electricity for lighting and LPG for cooking.
- **Post Saubhagya (Pradhan Mantri Sahaj bijli har ghar yojana) and Pradhan Mantri Ujjwala Yojana** the use of kerosene is steadily going down.
- **11 states/Uts** are already kerosene free i.e. no Kerosene is allocated to these states/Uts by MOP&NG.
- **The balance states/UTs** are allocated PDS Kerosene by MOP&NG on a quarterly basis.
 - o Kerosene is distributed through PDS and is sold at market price with zero central subsidy.
 - o State Government of Tamil Nadu is still subsidizing kerosene through state subsidy.
- **Effective from 1st March, 2020**, the retail selling price of PDS Kerosene is being maintained at NIL under-recovery level on pan India basis and is made available to the states at market prices

6) RURAL-URBAN INFLATION DIFFERENTIAL

- The divergence is mostly due to 'Food and beverages' as large weight have been assigned to this group in both CPI-U (36) and CPI-R(54).
- Inflation of fuel and light in rural areas has been different from urban areas mainly due to different fuel consumption pattern in two sectors, however it doesn't play that big a role in differentiating CPI-R and CPI-U as the weight given to this group is very less (7.9 in rural and 5.5 in urban)



Source: NSO, MoSPI

7) TRENDS IN WPI

- WPI inflation during the 2021-22 have shown an increasing trend (in contrast to CPI-C) and have remained high. Though it was benign in 2019-20 and 2020-21.
- **Reasons:**
 - o **Base effect:** (Low WPI in 2019-20 and 2020-21)
 - o **Inflation in all three groups**
 - In the Primary group – Crude, petroleum and natural gas have seen high inflation
 - Withing manufactured food products – edible oil saw high inflation

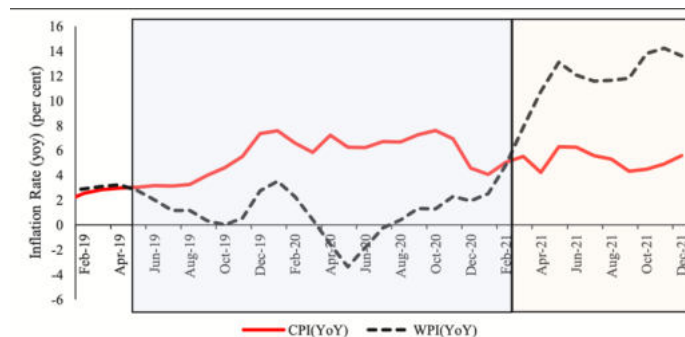
Table showing new commodity group and their weights in WPI

S.No	Commodity Groups	Weight	No of Articles
1	Primary Products	22.6%	117
2	Fuel, Power, Light & Lubricants	13.1%	16
3	Manufactured Products	64.2%	564

8) DIVERGENCE BETWEEN WPI AND CPI

- Why retail inflation becomes higher than whole sale inflation?

- » **High Transaction cost**
- » **Weak infrastructure system**
- » **Weak information system**
- » **Poor marketing facilities**
- » **Huge margin of middlemen**
- » **Collusion among traders** -> Poor competition
- » **Asymmetry** in the transmission of price signals from wholesale to retail prices and vice versa



- Why WPI inflation has been higher (divergent) in April 2021-22.

- » **High WPI inflation is due to Low Base** of WPI (crude oil prices had gone very low in 2020-21)
- » **Retail inflation had high base** due to supply side disruption and high food inflation in 2020-21. Both food inflation and supply side disruption were taken care of in 2021-22.
- » **Conceptual difference between WPI and CPI**
 - CPI reflects the buying behaviour of consumer whereas WPI is based on share of respective items in total wholesale transactions in the country at the first point of sale. Therefore, weight of various items are different in the two indices.
 - No indirect tax considered in WPI - so change in VAT/GST will not impact WPI, but impacts CPI.

9) GLOBAL COMMODITY PRICES AND DOMESTIC INFLATION

- **International commodity prices rose sharply during the second half of 2020 and 2021.**
- **Energy** prices saw a negative growth in COVID-19 period, but has recorded a triple digit growth in 5 out of 12 months since Jan 2021.
- **Food and metals and minerals** have also shown a double digit growth during the current year.
- According to ESI analysis, the domestic inflation as measured through WPI of related items have been highly correlated with growth in the international prices of these commodities.
- Similarly, since both for crude oil and edible oil India is dependent on imports, the WPI inflation of these are highly correlated with international prices.

10) HOUSING PRICES

A) RECENT MEASURES TAKEN BY GOVERNMENT TO ENHANCE HOUSING AFFORDABILITY

- **Reduction in circle rates and stamp duties** by various state governments like Delhi, West Bengal, Maharashtra to boost housing sales.
- **Tax Benefits:**
 - » Tax holiday to affordable housing projects until March 31, 2022.
 - » Eligibility for tax deductions for affordable housing announced in the 2019-20 budget has been extended till March 2022. This tax deduction can be of up to 1.5 lakh rupees and will be provided on interest paid on loans for self-occupied house owners (Budget 2021-22).
- **Schemes:**
 - » **PMAY-Urban (PMAY-U)**

- PMAY-U aims to address urban housing shortage among the EWS/LIG/MIG categories including slum dwellers by ensuring a pucca house to all eligible urban households by the year 2022.
- » **Affordable Rental Housing Complexes (ARHCs)** for urban migrants/ poor as a **sub-scheme under Pradhan Mantri Awas Yojana – Urban (PMAY-U).**
 - Existing vacant government funded housing complexes will be converted in ARHCs through Concession Agreements for 25 years.
 - Concessionaire will make the complexes livable by repair/retrofit and maintenance of rooms and filling up infrastructure gaps like water, sewer/ seepage, sanitation, road etc. States/UTs will select concessionaire through transparent bidding.
 - Complexes will revert to urban local bodies after 25 years to restart next cycle like the earlier one or run on their own.
 - In addition, special incentives like use permission, 50 per cent additional Floor Area Ratio (FAR)/Floor Space Index (FSI), concessional loan at priority sector lending rate, tax reliefs at par with affordable housing etc. will be offered to private/ public entities to develop ARHCs on their own available vacant land for 25 years.
- » **Credit Linked Subsidy Scheme for Middle Income Group (annual Income between Rs 6 - 18 lakhs):** It is being implemented since January 2017, was extended up to March 2021 to benefit 2.5 lakhs middle income families with targeted investment of over Rs 70,000 crore in housing sector under the Atma Nirbhar Programme announced in May 2020. This was also expected to stimulate demand for steel, cement, transport and other construction materials

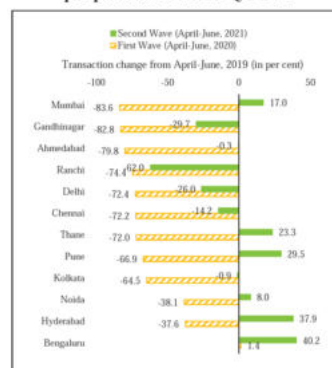
B) NHB RESIDEX: HOUSING PRICE INDEX

- The Housing Price Indices (HPIs) are a broad measure of movement of residential property prices observed within a geographical boundary.
- **In India, first official housing price index** for the country named '**NHB RESIDEX**' was launched in July 2007, by the **National Housing Bank**. NHB RESIDEX captures two housing prices indices viz. HPI@ Assessment Prices and HPI@ Market Prices - Under construction properties based on the data available for 50 cities with quarterly Updation.
- ESI has used Data on Composite Index for prices and transaction records from NHB to analyze the impact of COVID-19 waves (first and second) on housing transactions across a sample of 12 cities

C) IMPACT OF COVID-19 WAVES

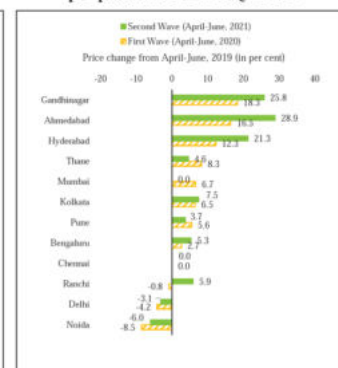
- ESI analysis shows that response of housing transactions to COVID-19 shock is much higher than the response of housing prices.

Figure 21A: Change in housing transactions in Q1 FY21 (First COVID-19 wave) and Q1 FY22 (Second COVID-19 wave) over the pre-pandemic levels of Q1 FY20



Source: NHB

Figure 21B: Change in housing prices index in Q1 FY21 (First COVID-19 wave) and Q1 FY22 (Second COVID-19 wave) over the pre-pandemic levels of Q1 FY20



11) LONG TERM PERSPECTIVE FOR MANAGEMENT OF SUPPLY SIDE FACTORS

Given the importance of supply-side factors in having a predominance in determination of inflation in India, long-term policies are likely to help.

- **Changing Production Patterns:**
 - » Encourage farmers to diversify to pulses, oilseeds etc (from rice and wheat). This will reduce import dependency, improve buffer management and reduce subsidy burden.
 - » Recently, government has been prioritizing increasing production of pulses and oilseeds through area expansion, productivity through HYVs, MSP support and procurement.
- **Calibrated Import Policy: Knee jerk reactions** to price rise of essential commodities like pulses and edible oils through frequent import duty/tariff revisions though providing immediate relief to the consumers in the way of lower prices, **send wrong signals to domestic producers** and create an environment of uncertainty.
 - » A long-term consistent approach is mandated.
- Focus on **transportation and storage infrastructure for perishable commodities**